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UNCLAS SECTION 01 OF 02 KINSHASA 000216

SIPDIS

SENSITIVE

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TAGS: EMIN ECON BINV EAID PGOV CG

SUBJECT: NEW MANAGEMENT INSTALLED IN MINING PARASTATAL

REF: A. 05 KINSHASA 731

B. 05 KINSHASA 1195

1.(SBU) Summary. The GDRC has finally taken a significant and long-delayed step in restructuring the mining parastatal, Gecamines, a dominant Mobutu-era mining operation. January 18, a new management team took over the bankrupt Gecamines, though not to restore it to its former monopoly status as a mining giant. Management faces daunting challenges, including a significant external debt load, years of salary arrears and bloated employee rolls, and pressure to reexamine the partnership agreements entered into during recent years of conflict. Gecamines must depend on its private sector joint ventures to raise revenue, as it possesses no capacity to do so on its own. Its continued existence is based more on political considerations than economic ones. End summary.

AN EXPANDED MANAGEMENT TEAM

12. (U) After months of debate and preparation, a December 30 presidential decree (published January 5) established a new management team and Board of Directors to launch the long-awaited restructuring of Gecamines (copper/cobalt/zinc mining). The management team took office January 18. SOFRECO, a French consulting firm, is charged with the management reform, pursuant to its eighteen-month contract (funded by the World Bank) with COPIREP (the Congolese agency responsible for restructuring public enterprises).

13. (U) The new management team includes three SOFRECO representatives in the positions of CEO, Financial Director and Deputy Technical Director. Paul Fortin, the CEO, is a mining law expert who has worked for several mining companies, including AngloGold Ashanti. Board members include representatives of the offices of the President, of the Vice President in charge of the Economic and Financial Commission, and of the Ministries of Finance, Mines and Portfolio.

MANY CHALLENGES

14. (U) The new team faces many challenges in its attempts to revive the company. (Note: In 1986, the DRC's annual copper production peaked at 476,000 tons. 2004 copper production was 12,000 tons, and 2005 production was 16,055 tons, despite Gecamines' optimistic estimates of 25,000 tons. End note.) Its substantial debt burden and limited resources place it in a precarious position. According to former Gecamines management, the parastatal has USD 1.7 billion in external debt and salary arrears of as much as five years on a payroll that lists about 12,000 employees, almost none of whom are actually working. A Gecamines official told Econ FSN that 10,334 are part of the labor force and 1,681 are executive staff.

15. (U) Gecamines has no capacity to raise revenue through its own mining operations, as it did during the 1980s and earlier. It has few known, exploitable concession areas, only a handful of pieces of usable equipment (a few trucks and large excavators) and none of its own functional concentrators or processing plants. According to its late 2004 inventory, Gecamines owns interests in five concentrators and nine processing plants run by other companies.

16. (U) To raise revenue, Gecamines has entered into 24 new exploration and exploitation concession agreements since 2003, including with Phelps Dodge, Tilwezembe/Global Enterprise (a Dan Gertler-controlled entity), and Kamoto Copper Company (a George Forrest-controlled entity) (reftel B). However, among all the new partners, only the tailings projects are currently producing any copper and cobalt.

YET MORE PRESSURES

17. (SBU) In addition to its huge financial problems, Gecamines faces political pressure to unwind questionable

concession agreements awarded beginning in 1997. Gecamines and other GDRC officials have contested several agreements made during this period. A World Bank consultative team has reviewed all of Gecamines' joint ventures, as part of the IMF economic reform, and is preparing its report. However, the provisions of the 2002 mining code establish the specific conditions under which Gecamines' can alter or void contracts.

Comment

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18. (SBU) The new management team certainly has its work cut out for itself if its intent is to justify Gecamines' future existence on purely economic grounds. End comment.

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